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Compensation, Culture & Contracts: The Blended DoD Acquisition Workforce

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Acquisition Research Program:
Creating Synergy for Informed Change

Compensation, Culture & Contracts: The Blended DoD Acquisition Workforce

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DoD's Acquisition Workforce: A Rich Blend of Mixed Allegiances

GAO (2009) study of 66 large program offices

Overall: 37% were support contractors

Missile Defense Agency: 49% were contractors

Joint programs: 47% were contractors

Navy: 40% were contractors

Air Force: 30% were contractors

Army: 22% were contractors



DoD's Acquisition Workforce Paradox

Compensation System in Flux...but HIRE!

- **FY04 NDAA** – amended Title 5 to allow pay-for-performance system, NSPS, to replace GS system.
- **FY10 NDAA** - further amended Title 5, rolling back NSPS & reinstituting GS system with better incentives and flexibilities.
- Hire / Convert 20,000 Acquisition Workers !
- Secretary Gates' goal: By FY 2015, *add* 20,000 civilian billets...
- 11,000 converted from contractor positions
- 9,000 new positions

Great opportunity to get things right!



Research Agenda: Balanced Approach

Quantitative

- Meta-analysis of three ***large salary surveys***, coupled with interview data (Jan-March 2010).
- Focused on acquisition-oriented labor categories (project managers, contract administrators, Earned Value analysts, cost estimators).

Qualitative

- In-depth interviews with **33 *acquisition managers*** with minimum 15 total years of experience working for at least two types of employers: military, civilian, contractor (February-April 2010)



Research Question #1: Is DoD really at a competitive disadvantage with respect to financial compensation?

Salaries and Bonuses for Project Managers, Contract Managers & Cost Estimators (TY09\$)

Type of Employer	PMI Survey		NCMA Survey		SCEA Survey	
	% of Sample	Med Salary	% of Sample	Med Salary	% of Sample	Med Salary
Contractor	41%	\$96,229	56%	\$91,673	67%	\$107,653
Government	10%	\$101,401	23%	\$89,680	30%	\$106,554
Consulting Firm	8%	\$115,369	3%	\$99,644	0%	
Median Bonus		\$7,295		\$3,475		n/a

Sources: SCEA (2005), NCMA (2008), PMI (2007)

DoD salaries compare favorably overall...but, how representative are these self-selected samples?



Total Compensation: Cross-Sector Comparison

	Military	Civilian	Industry	Military	Civilian	Industry	Military	Civilian	Industry
	<i>Project</i>			<i>Program</i>			<i>Exec</i>		
	<i>O-4</i>	<i>GS-13</i>	<i>Manager</i>	<i>O-5</i>	<i>GS-14</i>	<i>Manager</i>	<i>O-6</i>	<i>GS-15</i>	<i>Director</i>
<i>Basic Pay</i>	78,408	96,469	94,048	82,248	113,998	106,489	87,480	134,094	131,219
<i>Bonus</i>	0	1,300	4,205	0	1,400	4,761	0	1,500	5,867
<i>Healthcare</i>	12,000	6,900	6,900	12,000	6,900	6,900	12,000	6,900	6,900
<i>Housing</i>	22,884	0	0	24,948	0	0	25,200	0	0
<i>Subsistence</i>	2,676	0	0	2,676	0	0	2,676	0	0
<i>Tax Savings</i>	6,390	0	0	6,906	0	0	6,969	0	0
<i>Retirement</i>	3,920	4,823	3,292	4,112	5,700	3,727	4,374	6,705	4,593
<i>Paid Absences</i>	8,444	12,295	8,114	9,031	14,529	9,187	9,606	17,090	11,321
<i>Total</i>	\$130,803	\$116,964	\$113,267	\$137,809	\$136,827	\$127,337	\$143,931	\$159,584	\$155,306

Note: Reflective of FY09 rates, plus 20.54% locality pay

...but, at the most senior levels, DoD lags in flexibility and possibly competitiveness.



Research Question #2: Given that salaries appear competitive, what things retain top employees?

- Rewards for strong performance
- Ability to exert positive influence
- Productive environment (customer)
- Interpersonal dimension (no internal strife)
- Truly meaningful performance reviews
- Security – but not complacency
- Moving up – a real career ladder



The Interview Questions: Areas of Interest

Objective / Financial

- Base Salary
- Flexible Pay
- Bonus Pools
- Retirement Plans
- ESOPs
- Profit-Sharing
- Healthcare Insurance
- Other Benefits

Persuasive/ Intangible

- Culture
- Security
- Autonomy
- Customers
- Training Initiatives
- Travel Opportunities
- Positional Authority
- Social Rewards



Base Salary

- Industry has flexibility to hire and retain high-performing people who desire high salaries.
- DoD pay systems are compressed and tend to be rigid and rule-bound.
- DoD does not permit payment of “efficiency wage” *at point of need*; best agents may leave.

Principal-Agent Theory



Incentive Pay & Bonuses

- Industry offers on-the-spot awards, bonuses, commissions, ESOPs, and profit-sharing.
- Marginal impact of bonus pay for DoD workers is not enough to change behavior.

Principal-Agent Theory

- Information Asymmetry – reduced with sense of shared ownership.



Retirement Plans and Other Benefits

- Industry benefits are becoming less generous overall (margin pressures).
- DoD civilian benefits are adequate, but tend not to impact day-to-day behavior.
- Military benefits are extraordinarily generous, serving to motivate senior-level personnel.



**Retirement Plans and
Other Benefits**

- Vesting Requirements
- Military Retirement Rules
- Healthcare Needs

**Principal-Agent
Theory**

- Desired benefits may induce loyalty to current employer; however, every individual has different needs.



Work Culture & Customers

- Industry tends to have more factions, driven by competitive zeal. Tasking is more focused; roles are better defined. Customer relationship is key.
- DoD is often more cohesive (in terms of mission), but work culture is more impersonal. Responsibilities are broad and sometimes hard to ascertain.

Principal-Agent Theory

- Information Asymmetry (especially adverse selection) increases with competitive pressures.



Security

- Industry – staffing size driven by business base; job security moderate to low.
- DoD – jobs sometimes seen as “too secure”

Principal-Agent Theory

- Negative incentives (“fear of firing”) can sometimes motivate positive behavior.
- Information Asymmetry – increased during times of distress (need to survive).



Autonomy & Positional Authority

- Within industry, authority and autonomy may exist within own firm, but is contingent upon customer relationships.
- Within DoD, autonomy is relatively higher; positional authority much higher (interorganizational arena).

Principal-Agent Theory

- Dilulio: At certain points, self-sacrifice becomes rational. Intense “call to duty” defies rational choice theory.



Recommendations:

Reinstitute the GS system, but with...

Flexibility to hire at various levels (not just entry level)

Authority to do out-of-cycle salary ***adjustments*** (if needed)

Requirement for ***meaningful performance reviews***
and career discussions.

Ongoing ***mentoring*** and ***strategic recruitment***.

Firm requirements (experience and demonstrated knowledge)
for progressions in grade.

Conscious effort to promote ***mission-focused culture***.



Culture: Government vs. Industry

Government

- Constitutional oath
- Stewards of tax dollars
- Best for the country
- Due process
- Staff size funded and capped
- Grow leaders
- Pay equitably and hope for good results

Industry

- Dog eat dog
- *Profitus maximus*
- Best for the company
- At-will employment
- Staff size driven by revenue
- Hire leaders
- Pay flexibly and demand good results



Culture: Government vs. Industry

Government

- Big-picture view
- Call the shots
- Authority
- Chain of command

- Goodness measured via mission accomplishment, cost and schedule control

Industry

- Contract & project view
- Do the work
- Influence
- Matrix management

- Goodness measured in terms of revenue, profit, and follow-on work



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Acronyms

DoD = Department of Defense

ESOP = Employee Stock Ownership Plan

